

County of Muskegon, Michigan

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Management Letter
Year Ended September 30, 2004



BDO Seidman, LLP
Accountants and Consultants

99 Monroe Avenue N.W., Suite 800
Grand Rapids, Michigan 49503-2654
Telephone: (616) 774-7000
Fax: (616) 776-3680

To the Board of Commissioners of the
County of Muskegon, Michigan

During the course of our audit of the financial statements of the County of Muskegon as of and for the year ended September 30, 2004, we observed the County's significant accounting policies and procedures and certain governmental, administrative, and financial practices.

As a result of our observations, we have prepared, for management's review and evaluation, the enclosed memorandum containing suggestions regarding internal control, accounting procedures and governmental, financial and administrative practices of the County.

Matters which related to internal accounting control were not of a magnitude that would affect the presentation of the financial statements.

We appreciate the fine cooperation from management and the staff of Muskegon County that our personnel received during the audit.

BDO Seidman, LLP

Grand Rapids, Michigan
December 3, 2004

County of Muskegon, Michigan

Prior Year Observations

For the year ended September 30, 2003, we made one comment, which was communicated to the County of Muskegon by a letter dated December 12, 2003. The County has implemented this suggestion. A summary of the recommendation as originally presented follows:

Cash Receipt Procedures - Library Branches

During our audit, we reviewed the cash receipt procedures at three library branches. These three branches were the North Muskegon branch, the Egelston Township branch and the Norton Shores branch. Upon review of the procedures at the three branches, we noted that there were no consistent procedures utilized by the libraries. In addition, each of the libraries collected funds for both the County and the "Friends" group for their respective library, which may result in commingling of funds. Finally, we noted that cash was often left in the register for numerous days and there was no required frequency on timing of deposits.

Recommendation

We recommend that the County review the cash receipt procedures utilized by all library branches and strengthen the procedures by implementing a review process, require timely deposit of funds and establish procedures to insure funds are not commingled.

County of Muskegon, Michigan

Current Year Observations

New Pronouncements

There are several new pronouncements that have been issued by the Governmental Accounting Standards Board (GASB) that may affect future comprehensive annual financial reports issued by the County. A brief summary of these new pronouncements is listed below:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* deals with determining whether capital assets have been impaired and the proper reporting and disclosure of these assets. The standard also provides new financial statement presentation and disclosures relating to insurance recoveries. This pronouncement is effective for the County for the year ending September 30, 2006.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* applies to plans that are included as trust funds in the financial statements of the County. This pronouncement supersedes GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, and will be effective for the County for the year ending September 30, 2007. The standard will require presentation of financial statements and schedules similar to those presented for the County's pension plan, as well as require an actuarial valuation of the healthcare plan.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section – an Amendment of NCGA Statement 1* clarifies and updates prior requirements as they apply to the statistical sections of the comprehensive annual financial report. This standard also adds new information from the new financial reporting model. This pronouncement is effective for the County for the year ending September 30, 2006.

County of Muskegon, Michigan

Current Year Observations

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* addresses how the County should account for and report costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively these benefits are referred to as other postemployment benefits (OPEB). It will require the County to account for OPEB essentially the same as pensions. This will require an actuarial valuation for the applicable OPEB plans. This pronouncement will be effective for the County for the year ending September 30, 2008.

Proposed Technical Bulletin, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities* clarifies the requirement of GASB Statement No. 27 and 45.

GASB Statement No. 46, *Reporting of Net Assets* amends GASB Statement No. 34 to assist governments in determining when net assets have been restricted and specifies how those net assets should be reported in the financial statements.

Exposure Draft, *Accounting for Termination benefits* would establish guidance for governments regarding benefits, such as early-retirement incentives and severance benefits that are provided to employees who terminate employment.